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Pd&e

Resource
Services Corp.



2003 Annual Report



Pd&e welcomes all shareholders and interested parties to attend its annual general meeting on June 7, 2004 in the Macleod Room at the offices of Macleod Dixon LLP, located at 3700, 400 - 3 Avenue SW in Calgary, Alberta at 3:00 pm.

PD&E RESOURCE SERVICES CORP.

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PD&E RESOURCE SERVICES CORP.

President's Letter to the Shareholders

To our shareholders:

The petroleum industry benefits from oil service companies competing to develop innovative technologies and services. This process allows oil and gas companies to continually exploit petroleum resources in a more efficient, safer and environmentally-minded manner. Proprietary designed and engineered products are the basis of our Company's name and guide our corporate efforts. We are creating innovative products that address current issues facing the oil and gas industry. Safety and efficiency are of prime importance to oil and gas operators when it comes to protecting their personnel and property.

After raising seed capital of \$0.7 million, the Company's initial public offering was completed in November, raising gross proceeds of \$2.3 million. Subsequent to year-end, \$1.2 million was raised by way of private placement of convertible debentures, and we have since secured up to \$1.5 of long-term financing from a chartered bank. These funds provide a significant base with which to build a strong and diversified oil service company.

Through our wholly owned subsidiary Proheat Flameless Hot Oilers Inc., Pd&e began providing a revolutionary and much-needed advancement for the conventional hot oiling industry. Traditional hot oilers use an open combustion diesel and propane heater to heat the contents of a tank, a process that is inherently dangerous and results in considerable pollutants. Our unit has eliminated the open flame from the process, instead using the chassis engine to heat the tank contents. Our proprietary solution is safer (no open flame is required to heat fluids), more efficient (heat is retrieved from engine exhaust and excess horsepower) and is cleaner (no open flame means there is no uncontrolled combustion). Our innovations have allowed these units to operate on locations and in situations that would otherwise significantly restrict the provision of heating and pumping services.

Our hot oilers are used in a variety of applications including: heating of fracturing fluids such as oil, water and methanol products on location; high pressure pumping of acids and chemicals; pumping fluids for underbalanced coiled tubing drilling; holding back pressure after fracturing operations; pressure testing pipelines, wellheads, and down hole packers; batch mixing of chemicals and hot oil for removal of paraffin in wells through coiled tubing units; cleaning out hydrates in pipelines and gas plant turnarounds.

To date we have constructed two 3.8 MM btu flameless hot oilers and are considering manufacturing additional units. In the interim, we are proceeding with an expansion of complimentary service offerings that also utilize flameless technology: nitrogen pumping equipment, steam units and boilers.

In the first quarter of 2004, we commenced construction of three body-load 70 MPa - 85 m3/minute - 3.25 MM btu flameless nitrogen pumping units that are mounted on Kenworth Tridrive tractors. Nitrogen is used in coiled tubing operations for fracture cleanouts, nitrified acid treatments, nitrified cementing applications, hydrostatic testing of pipelines, well kick-arounds and industrial and petrochemical industrial plant turnarounds. Excess engine horsepower, exhaust heat and heat transfer from fluids are converted into usable energy to vaporize the liquid nitrogen. This eliminates the fired vaporizer and hydraulic engine loading systems used on conventional units, increasing safety and reducing fuel costs. The result is a safer and more efficient unit capable of operating under the most demanding oilfield conditions. We believe there is significant growth potential for these services and we plan to provide nitrogen pumping services by mid-summer from our base in Grande Prairie, Alberta.

PD&E RESOURCE SERVICES CORP.

President's Letter to the Shareholders

These nitrogen pumping units are capable of hauling 7,000 m³ of nitrogen, which is 40% more than conventional tractor trailer units. The body-load configuration of our units makes them far more maneuverable on location, and the units are able to operate during 75% road bans during spring breakup.

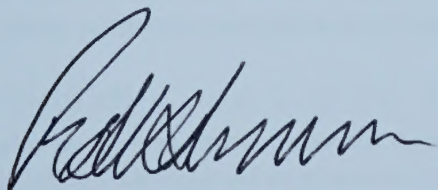
We also commenced construction of our first 1.5 MM btu flameless steam unit. These units are utilized for a variety of applications in the industrial and petrochemical industries. Operating on the same engineering principles as the flameless hot oilers and nitrogen pumping equipment, this equipment dramatically improves upon the safety of existing open-flame units presently available in the industry. With this new technology, Pd&e will have the ability of providing oil and gas companies a safer unit for plant turnarounds and cleaning and heating applications on wellheads, lines and tanks during winter operations. Preliminary engineering work has also commenced on using the Company's flameless technology on daylighting equipment.

Engineering and design has been completed on a new flameless boiler utilizing our flameless technology. These boilers will produce 3.0 MM btu at 90 psi of pressure within 20 minutes, have applications for drilling and service rigs and will replace conventional open-flame units. These units have the capability of providing the end user with steam for operations in the field, and can also be adapted as heating and power systems for centrifuge units.

The Alberta Energy and Utilities Board has recognized our Company's achievement in safety by granting approval to place our flameless hot oilers and boilers within 12 meters of a wellhead, storage tank or other source of ignitable vapor. This is significant for Pd&e and its customers, as traditional flame-type equipment is currently restricted to placement beyond 25 meters. Our equipment is consequently rigged up and down quicker than our competitors', saving time and money for our customers.

Through the course of 2004, we will be working diligently at growing our four main service/product groups rapidly. We will be evaluating opportunities for growth through acquisitions and further capital expenditures. Significant potential exists to provide additional services and to expand the geographical and technical reach of our existing services.

I would like to take this opportunity to express my appreciation to our employees and directors for their diligence and hard work in establishing Pd&e, to our customers for supporting our endeavors, and to our investors for their backing.



Rod Hauser
President and Chief Executive Officer

PD&E RESOURCE SERVICES CORP.

Management's Discussion and Analysis of the Results of Operations and Financial Condition For the Initial 195-day Period ended December 31, 2003

This Management Discussion and Analysis dated February 13, 2004 focuses on key statistics from the financial statements and pertains to known risks and uncertainties relating to the oilfield services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the initial 195-day period ended December 31, 2003 should be read in conjunction with the consolidated financial statements and related notes and material contained in other parts of the annual report. Notes referred to herein relate to these financial statements.

Selected Financial Information

The Company was incorporated under the Alberta Business Corporations Act on June 19, 2003. The Company secured equity financing in 2003 and has brought to market their flameless hot oiler process to the oil and gas industry. The Company offers hot oiling service in Alberta and British Columbia. The following selected financial information has been prepared in accordance with Canadian GAAP in Canadian Dollars.

For the Initial 195-day Period Ended December 31, 2003

Revenue	\$33,005
Net loss	(\$363,411)
Net loss per share (basic)	(\$0.08)
Total assets	\$2,541,537
Total long-term financial liabilities	nil

Review of Overall Performance and Results of Operations

The results for the year ended December 31, 2003 reflect the initial 195-day period of operations. The Company commenced construction of two hot oiler units in September 2003 and placed the first unit into operation in early November. Revenue was consequently derived from one unit over a 54-day period. The Company's second hot oiler unit was placed into active service January 2004. Operating costs of \$60,387 were incurred which includes payroll for field personnel, equipment maintenance and fuel charges. General and administrative charges of \$329,923 were incurred for expenses comprised mainly of professional and business development charges relating to the startup of the Company. Amortization charges of \$9,295 were incurred for the first hot oiler unit placed into service in November and for furniture, fixtures and computer equipment purchased earlier in 2003. Other income of \$3,189 is comprised of interest earned on term deposits, which the Company purchases with excess cash on hand. The Company incurred a net loss of \$363,411 due to charges associated with the start up of the Company. The Company closely monitors its field and administrative expenses, and in the event of increasing costs, competitive pressures, or lower-than expected utilization rates, will take appropriate measures to protect its margins.

The consolidated financial statements include the accounts of Pd&e Resource Services Corp. and its wholly owned subsidiary Proheat Flameless Hot Oilers Corp. The Company markets its services through the Proheat brand name and field services are provided by this subsidiary.

PD&E RESOURCE SERVICES CORP.

Management's Discussion and Analysis of the Results of Operations and Financial Condition For the Initial 195-day Period ended December 31, 2003

Hot oilers have been used in the energy industry for at least 30 years. They have a wide variety of uses depending on unit design and configuration, but generally speaking they provide two services: the heating and pumping of fluids. The Company's hot oiler units do not use an open-flame combustion process, as do traditional hot oiler units. Many of the health, safety and environmental hazards relating to open-flame operations are consequently reduced or eliminated entirely. While the Company introduced its first flameless hot oiler unit to the industry at an opportune time, namely the busy winter drilling season, the Company was faced with the expected challenges of introducing a fundamentally advanced and improved technology to compete with firmly entrenched hot oiling methods. Since Pd&e is new to the business, the challenges faced during 2003 were ones of service exposure and differentiation and fine-tuning equipment operations. The Company has made the required effort to introduce its service to the market and build strategic alliances, and this is expected to positively impact 2004 results.

Use of Proceeds

According to the final prospectus dated November 12, 2003 for the Company's initial public offering, \$1,500,000 of the proceeds raised was intended to finance the construction of three flameless hot oiler units.

	Prospectus Disclosure	Actual Expenditure	Variance
Build cost of three hot oilers	\$1,500,000	\$1,031,154	\$468,846
Engineering and design of steam unit	\$0	\$57,500	(\$57,500)
Total	\$1,500,000	\$1,088,654	411,346

The Company incurred actual expenditures for the construction of hot oilers of \$1,031,154, a variance of \$468,846 due to the fact only two units were constructed. While the Corporation did intend to spend the funds as stated in the prospectus, it was deemed prudent to determine market acceptance of the flameless hot oilers prior to the construction of additional units. As disclosed in the prospectus, a portion of the funds could be used to develop other complimentary product lines. A total of \$57,500 was spent on the design and engineering of a flameless steam unit, which will allow the Company to diversify its future revenue streams.

Business Risks

Pd&e is subject to a number of known and unknown risks and uncertainties including: fluctuations in the price and demand of oil and gas; fluctuations in the level of oil and gas exploration and development activities; fluctuations in the demand for hot oiling services; the existence of competitors; technological changes and developments in the oil and gas industry; the ability of oil and gas companies and the Company to raise capital; the effects of severe weather conditions on operations; the existence of operating risks inherent in oilfield services; changes in laws or regulations; the lack of availability of qualified personnel or management; and other unforeseen conditions which could impact on the use of services supplied by the Corporation.

Liquidity and Capital Resources

At December 31, 2003 the Company held cash and cash equivalents of \$1,039,738 and had positive working capital of \$1,326,178. These funds are sufficient to meet the Company's short-term activities and working capital requirements. However, it is expected that some of the Company's cash and cash equivalents will fund the construction of additional oilfield equipment. A significant portion of the Company's cash and cash

PD&E RESOURCE SERVICES CORP.

Management's Discussion and Analysis of the Results of Operations and Financial Condition For the Initial 195-day Period ended December 31, 2003

equivalents are held at one chartered bank and the Company is consequently exposed to a concentration of credit risk with this institution. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from any of the financial instruments it has.

Subsequent to year end, the Company closed the first \$1,000,000 tranche of a non-brokered, arms-length \$1,500,000 private placement of secured, subordinated convertible debentures. Additionally, the Company has entered into discussions with a Canadian chartered bank regarding a \$500,000 demand revolving loan and \$1,500,000 capital lease facility. Cash and cash equivalents, proceeds from the convertible debenture financing and, if secured, the capital lease facility, shall fund the planned construction of additional oilfield equipment. As at December 31, 2003 the Company commenced design and construction of a steam unit utilizing "flameless" technology. The Company has spent \$57,500 to date and anticipates spending a further \$129,725 to complete construction of this unit.

Off-Balance Sheet Arrangements

Pursuant to a pending patent for a flameless hot oiler that was purchased during the period, the Company has committed to paying a monthly royalty for a 20-year duration to the inventors of the patent of \$1,250 per new hot oiler put into place. As at December 31, 2003 the Company was operating one hot oiler unit. Subsequent to year-end a second hot oiler unit was placed into service. During the year, the Company entered into a commitment for the design and construction of additional equipment. The Company provided a down payment of \$50,000 and is committed to making a final payment of \$150,000 upon completion of construction.

Transactions with Related Parties

During the initial 195-day period ended December 31, 2003 the Company incurred various transactions with related parties.

The Company issued 1,825,000 common shares at a price of \$0.10 per common share to Rod Hauser, Jason Krueger, Rick Skeith, Glenn Gradeen and Guy Comeau and members of their immediate families. These individuals are directors or officers of the Company and the shares were issued for cash as part of a larger private placement prior to the Company's initial public offering.

The Company advanced \$250,000 to Leader Energy Services Corp. (LES) for the provision of administrative services including rent, accounting services and various other office and administrative costs expected to be rendered in 2004. Rod Hauser, Rick Skeith and Guy Comeau are directors or officers of LES. The Company also paid \$50,000 during 2003 to LES for administrative costs. According to an administrative agreement made effective November 1, 2003 and expiring November 1, 2004, a fee of \$25,000 per month is payable.

The Company repaid \$275,000 to LES for operating expenses and other costs paid on behalf of the Company. At December 31, 2003, \$28,279 was payable for these costs.

The Company paid legal fees in the amount of \$69,130 for services provided by Macleod Dixon LLP of which Rick Skeith is a partner. At year end, \$2,902 was payable for legal fees to this firm.

The Company paid consulting fees to Jason Krueger in the amount of \$9,161 for the preparation of the Company's business plan.

PD&E RESOURCE SERVICES CORP.

Management's Discussion and Analysis of the Results of Operations and Financial Condition For the Initial 195-day Period ended December 31, 2003

These transactions are in the normal course of operations and are measured at the exchange amount, the amount of consideration established and agreed to by the related parties.

Application of Critical Accounting Estimates

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Property and equipment is recorded at cost less related investment tax credits and government grants.

The Company adopted the recommendations of CICA Handbook Section 3870: Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statement of operations and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. Pd&e has chosen to use the fair value method to account for stock-based employee compensation plans and as such records compensation expense when options are issued to directors, employees and consultants. Any consideration paid by employees on the exercise of the options is credited to capital stock. During the period, the Company recorded compensation expense in the amount of \$72,815 for options issued to employees, directors, officers and consultants of the Company. Future compensation expense for the granting of stock based compensation is subject to management's estimates of expected stock price volatility and the risk-free rate of interest.

Management estimates that future cash flows will be sufficient to recover the cost of equipment that has been purchased. Based on these estimates, impairments or write-downs will not be required.

Outlook

Commodity prices are expected to remain strong through 2004, which should result in continued high levels of exploration and development drilling activity in Western Canada, and strong demand for hot oiling services. Cash and cash equivalents, proceeds from the recently completed convertible debenture financing and, if secured, the capital lease facility, provide adequate funding for future construction of additional oilfield equipment. With these strong industry fundamentals and the potential of complimentary oilfield services, the Company remains optimistic for 2004.

Other

Additional information for the Company can be found on SEDAR at www.sedar.com. The number of common shares outstanding at the date of this Management's Discussion and Analysis were 15,243,480 which does not include 675,000 unexercised stock options.

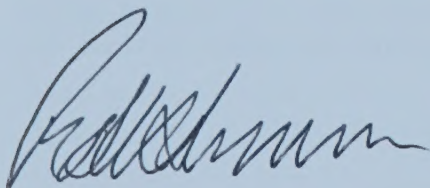
Management's Responsibility for Financial Statements

The management of Pd&e Resource Services Corp. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgments and estimates where necessary.

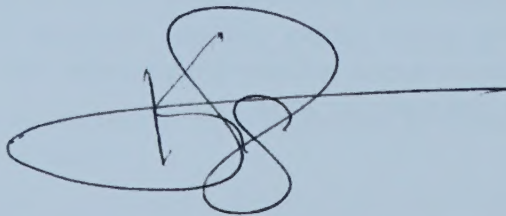
The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with external auditors and management to review the work of each and the propriety of the discharge of their responsibilities. Specifically, the Audit Committee reviews with management and the external auditors the financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

BDO Dunwoody LLP has been appointed as the external auditors of the Company and, in that capacity they have examined the financial statements for the period ended December 31, 2003. The Auditor's Report to the shareholders is presented herein.



Rod Hauser
President & Chief Executive Officer



Jason Krueger, CFA
Vice President and Corporate Secretary

February 13, 2004

PD&E RESOURCE SERVICES CORP.

Auditor's Report

To the Shareholders of Pd&e Resource Services Corp.

We have audited the consolidated balance sheet of Pd&e Resource Services Corp. as at December 31, 2003 and the consolidated statements of operations and deficit and cash flows for the initial 195 day period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003, the results of its operations and its cash flows for the initial 195 day period then ended in accordance with Canadian generally accepted accounting principles.



BDO Dunwoody LLP
Chartered Accountants

Calgary, Alberta
February 13, 2004

PD&E RESOURCE SERVICES CORP.

Consolidated Balance Sheet

December 31, 2003

Assets

Current

Cash and cash equivalents	\$1,039,738
Accounts receivable	110,635
Deposits on contract (Note 3)	<u>250,000</u>
	1,400,373

Property and equipment (Note 4) 1,084,854

Patent (Note 5) 56,310

\$2,541,537

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities	\$43,013
Due to related entities (Note 7(c) & (d))	<u>31,181</u>
	74,194

Share capital (Note 6) 2,703,591

Contributed surplus (Note 6(d)) 72,815

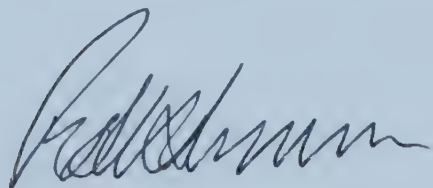
Share subscriptions received (Note 6(c)) 54,348

Deficit (363,411)

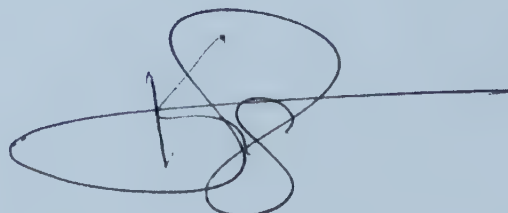
2,467,343

\$ 2,541,537

Approved on behalf of the Board:



Rodney Hauser, Director



Jason Krueger, Director

The accompanying notes are an integral part of these consolidated financial statements.

PD&E RESOURCE SERVICES CORP.

Consolidated Statement of Operations and Deficit
For the initial 195 day period ended December 31, 2003

Revenue	\$ 33,005
Expenses	
Operating costs	60,387
Amortization	9,295
General and administration	<u>329,923</u>
	<u>399,605</u>
Loss from operations	(366,600)
Other income	<u>3,189</u>
Net loss for the period, representing deficit, end of period	\$ (363,411)
Loss per common share - basic (1)	\$(0.08)
Weighted average number of shares outstanding	4,837,767

(1) Diluted per share amounts have not been disclosed as such would be anti-dilutive.

The accompanying notes are an integral part of these consolidated financial statements.

PD&E RESOURCE SERVICES CORP.

Consolidated Statement of Cash Flows

For the initial 195 day period ended December 31, 2003

Cash flows from operating activities

Net loss for the period	\$ (363,411)
Items not involving cash	
Amortization	9,295
Stock compensation expense	72,815
	<u>(281,301)</u>

Changes in non-cash working capital items

Accounts receivable	(110,635)
Deposits on contract	(250,000)
Accounts payable and accrued liabilities	43,014
Due to related entities	31,181
	<u>(567,741)</u>

Cash flows from financing activities

Issue of share capital, net	2,703,591
Share subscription receipts	54,348
	<u>2,757,939</u>

Cash flows from investing activities

Purchase of property and equipment	(1,091,334)
Purchase of patent	(59,126)
	<u>(1,150,460)</u>

Increase in cash and equivalents, representing cash and equivalents, end of period	<u>\$1,039,738</u>
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The accompanying notes are an integral part of these consolidated financial statements.

PD&E RESOURCE SERVICES CORP.

Notes to Consolidated Financial Statements

December 31, 2003

1. Incorporation

The Company was incorporated under the Alberta Business Corporations Act on June 19, 2003. The Company secured equity financing and has brought to market their flameless hot oiler process to the oil and gas industry. The Company offers hot oiling services in Alberta and British Columbia.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality.

(a) Consolidation

The consolidated financial statements include the accounts of Pd&e Resource Services Corp. (the "Company") and its wholly-owned subsidiary Proheat Flameless Hot Oilers Corp.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term money market investments with maturities of three months or less.

(c) Property and equipment

Property and equipment is recorded at cost less related investment tax credits and government grants. Amortization is provided on an annual basis as follows:

Computer	- 30% diminishing balance basis
Hot oiling and other rental equipment	- Straight-line over 15 years
Furniture and fixtures	- 20% diminishing balance basis

Computer equipment and furniture and fixtures are subject to amortization on the half-year rule in the year of acquisition. No amortization is taken for property and equipment that is not yet in use.

PD&E RESOURCE SERVICES CORP.

Notes to Consolidated Financial Statements

December 31, 2003

(d) Patent

Patent is recorded at cost and is amortized on a straight-line basis over 21 years, its useful life.

(e) Revenue

Revenue is recognized as services are rendered based upon agreed daily, hourly or job rates.

(f) Stock-based compensation plan

The Company adopted the recommendations of CICA Handbook Section 3870; Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statement of operations and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. The Company has chosen to use the fair value method to account for stock-based employee compensation plans and as such records compensation expense when options are issued to employees and consultants. Any consideration paid by employees on the exercise of the options is credited to capital stock.

(g) Per share amounts

Basic earnings per common share is computed by dividing earnings from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards approved by the Canadian Institute of Chartered Accountants.

(h) Future income taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(i) Financial Instruments

The Company has a number of financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

PD&E RESOURCE SERVICES CORP.

Notes to Consolidated Financial Statements

December 31, 2003

3. Deposits on Contract

Deposits relate to advances for administration costs. Included in administration costs are rent expense, accounting services, and various other office and administrative costs. The amounts relate to the expected administrative services to be rendered in 2004.

4. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value
Computer	\$ 1,740	\$ 261	\$ 1,479
Hot oiling and other rental equipment	1,088,654	6,125	1,082,529
Furniture and fixtures	940	94	846
Total	<u>\$ 1,091,334</u>	<u>\$ 6,480</u>	<u>\$ 1,084,854</u>

5. Patent

	Cost	Accumulated Amortization	Net Book Value
Patent	\$ 59,125	\$ 2,815	\$ 56,310

During the period, a pending patent for a flameless hot oiler was purchased by the Company in exchange for 250,000 common shares of the Company and \$12,500 cash. As the purchase was from a third party, the transaction was recorded at the exchange amount. Additional legal costs were incurred with respect to the patent registration.

6. Share Capital

(a) Authorized

Unlimited number of Common shares

Unlimited number of Preferred shares, issuable in series

PD&E RESOURCE SERVICES CORP.

Notes to Consolidated Financial Statements

December 31, 2003

(b) Issued

Common shares	Number of Shares	Amount
Issued for cash pursuant to private placement	6,650,000	\$ 665,000
Issued for patent (Note 5)	250,000	25,000
Issued for signing bonus	100,000	10,000
Initial public offering for cash	7,700,000	2,310,000
Less: share issue costs	-	(306,409)
	14,700,000	\$ 2,703,591

(c) Share subscriptions

During the period ended December 31, 2003, the Company had received proceeds totaling \$54,348 in regards to a private placement. The 543,480 related shares were issued January, 2004.

(d) Stock option plan

The Company has adopted a stock option plan for directors, senior officers, employees and key consultants of the Company, which permits the granting of options to purchase common shares.

The number of options and the exercise price thereof is set by the board of directors of the Company at the time of grant provided that the exercise price shall not be less than the market price of the common shares. The options granted under the stock option plan are exercisable for a period of not greater than five years from the date of grant and may vest at such times as the board of directors of the Company may determine at the time of grant. At December 31, 2003, 675,000 options with an exercise price of \$0.30 were outstanding and exercisable to August 10, 2008.

	2003	
Granted, outstanding and exercisable at the end of the period	Number of options	Weighted average exercise price
	675,000	\$ 0.30

During the period, the Company recorded compensation expense in the amount of \$72,815 for options issued to employees, directors, officers and consultants of the Company.

The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield nil; expected volatility at a rate of 30%; risk-free interest rate of 5%; and weighted average life of 5 years.

PD&E RESOURCE SERVICES CORP.

Notes to Consolidated Financial Statements

December 31, 2003

(e) Shares held in escrow

Pursuant to an agreement dated as of August 31, 2003, 1,775,000 shares were placed in escrow. The Escrow Agreement provides that the Escrowed Shares will be released from escrow in equal tranches at 6 month intervals over the 36 months following the issue of the final receipt for the prospectus, with 15% of each Principal's holdings being released in each tranche.

7. Related Party Transactions

During the initial period ended December 31, 2003, the Company:

- (a) Issued 1,825,000 common shares to directors and officers, and members of their immediate families, pursuant to the private placement (Note 6(b)).
- (b) Advanced \$250,000 to a company related by virtue of a common management team and directors, for administrative costs for 2004. The Company also paid \$50,000 during 2003 for administrative costs. According to the administration agreement made effective November 1, 2003 and expiring November 1, 2004, a fee of \$25,000 per month is payable for administration services provided by this related company.
- (c) Repaid a company related by virtue of a common management team and directors, for operating expenses and other costs paid on behalf of the Company. Total expenses paid by this related company were \$303,279. At December 31, 2003, \$28,279 was payable for these costs.
- (d) Paid legal fees in the amount of \$69,130 for services provided by a firm of which a director of the Company is a partner. At year-end, \$2,902 was payable for legal fees to this firm.
- (e) Paid consulting fees to a director in the amount of \$9,161.

These transactions are in the normal course of operations and are measured at the exchange amount, the amount of consideration established and agreed to by the related parties.

8. Corporate Taxes

The effective rate of income tax varies from the statutory rate as follows:

Combined tax rate	36.7%
Expected income tax provision at statutory rate	\$ (123,185)
Permanent differences	(22,395)
Change in valuation allowance	145,580
Actual income tax provision	\$ -

PD&E RESOURCE SERVICES CORP.

Notes to Consolidated Financial Statements

December 31, 2003

The components of the Company's future income tax liabilities are a result of the origination and reversal of temporary differences and are comprised of the following:

Income:

Nature of temporary differences

Property and equipment	\$ (24,509)
Patents	682
Unused tax losses carryforward	169,407
Valuation allowance	(145,580)
Future income tax asset	\$ -

Capital:

Share issue costs	\$ 92,898
Valuation allowance	(92,898)
Future income tax asset	\$ -

The Company had approximately \$460,000 of non-capital loss available for loss carry forward to reduce future taxable earnings. They expire December 31, 2010. The benefit of these losses has not been recognized in the financial statements due to the uncertainty of future realization.

9. Non-cash Transactions

During the period the Company issued 350,000 common shares valued at \$35,000 for employee signing bonus and patent acquisition (Note 6).

During the period, the Company also recorded compensation expense for options issued during the year of \$72,815.

10. Financial Instruments

Credit risk

A significant portion of the Company's trade accounts receivable are from companies in the oil and gas industry, and as such, the Company is exposed to all the risks of that industry. At December 31, 2003, a significant portion of the Company cash was held at one financial institution. As a result, the Company is predisposed to concentrations of credit risk.

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11. Commitments

Pursuant to the patent purchased (Note 5), the Company has committed to paying a monthly royalty for a twenty year duration, to the inventors of the patent of \$1,250 per new hot oiler unit put into place.

During the year, the Company entered into a commitment for the design and construction of additional equipment. The Company provided a down payment of \$50,000 and is committed to making a final payment of \$150,000 upon completion of construction.

12. Subsequent Event

On February 5, 2004 the Company closed the first \$1,000,000 tranche of a non-brokered, arms-length \$1,500,000 private placement of secured, subordinated convertible debentures. The convertible debentures will mature on January 31, 2006, accrue interest at a rate of 7.5% per annum, and will be convertible any time after August 1, 2004 at the option of the holder at \$0.40 per common share. The Company may mandate conversion after January 31, 2005 if the Company's shares trade for twenty consecutive days at 150% of the conversion price.

PD&E RESOURCE SERVICES CORP.

Corporate Directory

Directors

Rod Hauser

President and Chief Executive Officer
Pd&e Resource Services Corp.

D. Richard Skeith

Partner
Macleod Dixon LLP

Jason Krueger, CFA

Vice President and Corporate Secretary
Pd&e Resource Services Corp.

Glenn Gradeen

President
Rosetta Exploration Inc.

Officers

Rod Hauser

President and Chief Executive Officer

Jason Krueger, CFA

Vice President and Corporate Secretary

Jim Ashbaugh, CMA

Vice President and Chief Financial Officer

Guy Comeau

Vice President, Sales

Doug Costall

Vice President, Operations

Rob Foster

Vice President, Engineering

Additional Information

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Transfer Agent and Registrar

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